



Odbayar Oyunbaatar

od@bdsec.mn
Phone/fax: (976) 11-323411

Sales & Research

Munkhtulga Ganbold
Head of Institutional Sales
mganbold@bdsec.mn

Dagiiijanchiv Chuluunbaatar
dagiiijanchiv@bdsec.mn

Sainbayar Jadamba
sainbayar@bdsec.mn

Otgonjargal Tumurdavaa
otgonjargal@bdsec.mn

At-a-glance

Bloomberg: HGN MO
MSE: HGN (532)

Shares outstanding: 101,317,557
Free float: 47.5%

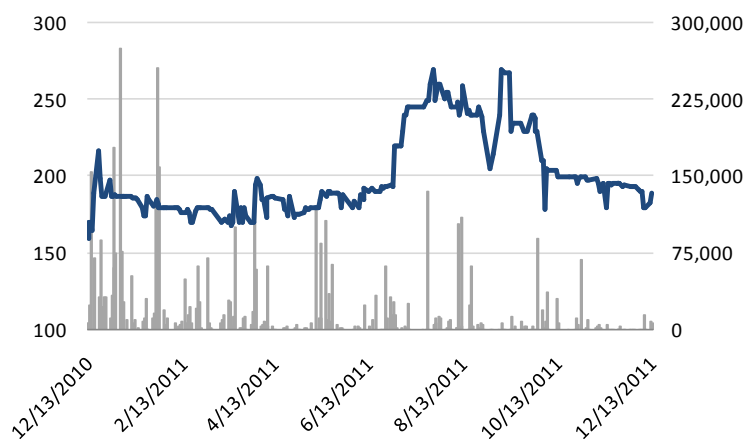
Main shareholder: Beren Group LLC
Market Cap: US\$14.2 mn

Closing price: MNT 189
52 week high/low: MNT 276/161

Highlights

- Khukh Gan produced 1,450 tonnes of direct reduced iron (DRI) in October, 2011, meaning the company is now running at a 100% capacity utilization rate for the first time since its establishment. It also makes the company's annual production 17,400 tonnes at this rate.
- So far this year, Khukh Gan has produced over 5000 tonnes of DRI, majority of which have been sold to Darkhan Metallurgical Plant (DMP), a domestic steel maker recently struggling with shortage in raw material supply. This state-owned plant is able to produce 100,000 tonnes of reinforced bars and other steel products annually which are mainly used in the domestic construction sector.
- Besides supplying DMP, Khukh Gan has also exported a small amount of DRI to China this year, showing the possibility that the company could still get to an international market. Price for per tonne DRI that sold to DMP this year was 430,000 MNT, or roughly 314 USD which is 30% higher than it was in 2010, but still about 10% lower than the export price.
- The DRI being produced by the company has an iron content of 84 to 87%, the similar quality as pig iron but still the best raw material for steel making. According to the company's engineers, at times, the iron content goes well over 90% and they are working to make it consistent.
- For the time being, Khukh Gan is putting most of its attention on completing a construction of the company's second production line that would have the same capacity as the existing line. It plans to finish the implementation of the new line later this year and expects a normal operation starting January 2012. It will double the company's current capacity to 30,000 tonnes for which Khukh Gan sees enough demand domestically as well as internationally.
- In conclusion, we expect that the company to produce a sound performance in 2012 having successfully completed all of its capex plans, and to start generating a strong cash flow. Even though a potential slowdown in the domestic construction sector could present some danger to the company, if managed wisely, the export market is still a huge potential for Khukh Gan.

Stock performance



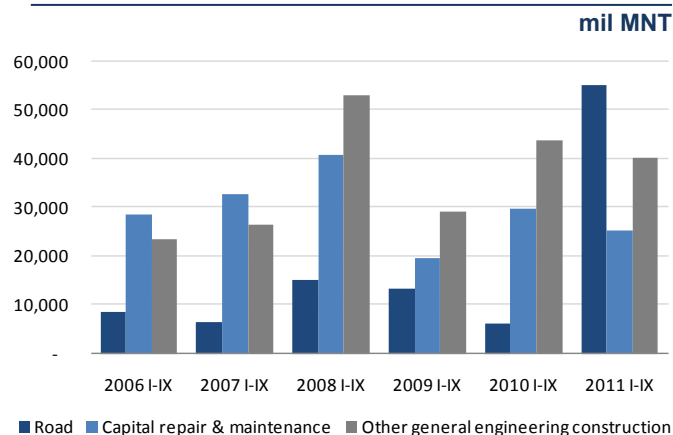
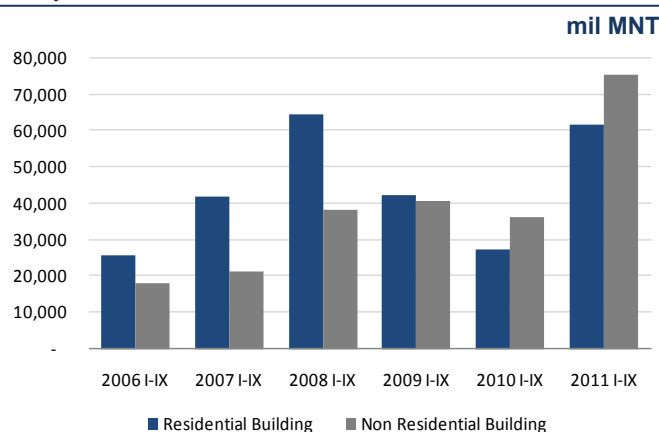
Financial

Khukh Gan's management believes that the new production line will cut the cost of production significantly.

	2009	2010	3Q2011
Asset Mil USD	7.97	8.61	11.74
Equity Mil USD	6.74	6.10	5.65
Revenue Mil USD	0.09	0.64	0.56
COGS Mil USD	0.10	1.34	1.15
NPAT Mil USD	(0.29)	(1.08)	(0.89)
Share Price Returns %	12.3	55.8	1.1
Debt-to-equity ratio %	0.18	0.34	1.08
Current ratio	1.24	0.85	0.85

The government is implementing several large scale housing projects in order to supply home to more than a half of the total capital city residents who still live without modern accommodations.

1100-1200 km paved road projects are to be finished within this year.



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